

## Message Text

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PAGE 01 EC BRU 06921 01 OF 02 291849Z

41

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

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TO SECSTATE WASHDC 6093

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

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PASS TREASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJ: ECONOMIC AND MONETARY UNION - MEETING OF  
COORDINATION GROUP

REFS: A. EC BRUSSELS 6415

B. EC BRUSSELS A428

1. SUMMARY. THE EC HIGH-LEVEL COORDINATION GROUP  
HAS MET TWICE TO DISCUSS THE COMMISSION'S MOST RECENT  
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PAGE 02 EC BRU 06921 01 OF 02 291849Z

PROPOSALS ON ECONOMIC AND MONETARY UNION IN PREPARATION

FOR THE EC COUNCIL (FINANCE) MEETING DECEMBER 3-4. WHILE SOME OF OUR PERMANENT REPRESENTATION CONTACTS FOUND THE DISCUSSIONS CONSTRUCTIVE -- AT LEAST IN THE LIGHT OF THEIR LIMITED EXPECTATIONS -- A WELL-PLACED COMMISSION SOURCE HAS EXPRESSED THE VIEW THAT THE MEETINGS REVEALED LITTLE EVIDENCE OF SERIOUS DETERMINATION TO MOVE FORWARD ON KEY ISSUES SUCH AS STRENGTHENING THE MONETARY COOPERATION FUND. SHORT OF A LAST MINUTE CHANGE OF HEART BY THE FINANCE MINISTERS, OUR CONTACT SAW LITTLE HOPE FOR MAJOR DECISIONS IN THE NEAR FUTURE. SOME OF THE GUARDED OPTIMISM OF THE LAST FINANCE COUNCIL (REF B) MAY REMAIN, HOWEVER, SINCE THE COUNCIL IS EXPECTED TO APPROVE IN SOME FORM OR OTHER AT LEAST SOME OF THE COMMISSION'S PACKAGE OF FIVE PROPOSALS. END SUMMARY.

2. PERMANENT REPRESENTATION AND COMMISSION CONTACTS HAVE GIVEN US THEIR VIEWS ON THE RESULTS OF THE RECENT HIGH-LEVEL (MEMBER STATE REPRESENTATIVES FROM FINANCE MINISTRIES AND CENTRAL BANKS) COORDINATION GROUP MEETINGS CALLED TO PREPARE THE EC COUNCIL (FINANCE) DECEMBER 3-4 MEETING ON ANTI-INFLATION POLICY AND THE EC COMMISSION'S PROPOSALS ON ECONOMIC AND MONETARY UNION. THESE PROPOSALS WERE ANNOUNCED AT THE EC COUNCIL (FINANCE) MEETING NOVEMBER 9 (REF A) AND FORWARDED TO THE DEPARTMENT, RPE, TREASURY AND FRB BY POUCH ON NOVEMBER 23, 1973.

3. ACCORDING TO OUR SOURCES, THE COORDINATION GROUP DISCUSSED PRINCIPALLY (A) THE COMMISSION'S PROPOSED EC COUNCIL DIRECTIVE ON STABILITY, GROWTH, AND FULL EMPLOYMENT; (B) THE PROPOSED COUNCIL DECISION ON HARMONIZATION OF MEMBER STATE ECONOMIC POLICIES, AND (C) A DRAFT DECISION SETTING UP AN ECONOMIC POLICY COMMITTEE. THE TWO OTHER ITEMS OF THE COMMISSION'S PROPOSED WORK PROGRAM ON ECONOMIC AND MONETARY UNION -- THOSE CONCERNING THE SECOND STAGE AND THE MONETARY COOPERATION FUND -- WERE DISCUSSED BRIEFLY AND INFORMALLY.

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PAGE 03 EC BRU 06921 01 OF 02 291849Z

4. WITH RESPECT TO ITEMS A, B AND C IN PARAGRAPH 3 ABOVE, THE GROUP SUGGESTED A NUMBER OF MODIFICATIONS AND ASKED THE COMMISSION TO PRESENT NEW DRAFTS TO THE COUNCIL. EC COMMISSION DIRECTOR GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS UGO MOSCA INDICATED HIS PERSONAL ACCEPTANCE OF THE SUGGESTED CHANGES AND SAID HE WOULD ASK THAT THE COMMISSION TAKE THEM INTO ACCOUNT. WE UNDERSTAND THE CHANGES SUGGESTED ON THE WHOLE DO NOT

VITIATE THE SUBSTANCE OF THE COMMISSION'S PROPOSALS BUT ARE RATHER INTENDED TO MAKE THEM MORE FLEXIBLE IN APPLICATION AND IN SOME CASES LESS BINDING. ON THIS BASIS, OUR CONTACTS TELL US, THE THREE PROPOSALS NOTED ABOVE ARE LIKELY TO BE ACCEPTED. AS EXAMPLES OF THE CHANGES, IN ARTICLE VI OF THE PROPOSED DIRECTIVE ON STABILITY, GROWTH, AND FULL EMPLOYMENT, EACH MEMBER STATE IS CALLED UPON TO TAKE THE NECESSARY STEPS TO BE ABLE TO IMPLEMENT A SERIES OF DEMAND MANAGEMENT POLICIES WITHIN 30 DAYS. THE GROUP RECOMMENDED THIS BE CHANGED TO 90 DAYS AND THAT THE MEASURES NEED BE APPLIED FOR ONLY A LIMITED PERIOD. IT WAS ALSO CLEAR THAT ARTICLE VII OF THE ITEM ON CONVERGENCE OF ECONOMIC POLICIES, WHICH CALLS FOR OBLIGATORY PRIOR CONSULTATION ON PARITY OR CENTRAL RATE CHANGES, WOULD NOT BE ACCEPTABLE TO THE MEMBER STATES.

5. ACCORDING TO OUR SOURCES, SERIOUS DOUBTS WERE EXPRESSED AS TO WHETHER THE PROPOSED MEASURES RELATED TO THE MONETARY COOPERATION FUND (ESSENTIALLY RESERVE POOLING AND STRENGTHENING OF SHORT-TERM MONETARY SUPPORT) COULD BE IMPLEMENTED IN THE NEAR FUTURE OR WHETHER THEY WERE STRICTLY NECESSARY. SOME DELEGATIONS REPORTEDLY SUGGESTED THAT THE PROPOSALS WERE TOO FAR-REACHING GIVEN THE PRESENT STATE OF ECONOMIC AND MONETARY UNION. BOTH PERM REP AND COMMISSION SOURCES CONCLUDE THAT RESERVE POOLING IS OUT AND THAT THE AMOUNT OF SHORT-TERM MONETARY SUPPORT PROPOSED BY THE COMMISSION WILL HAVE TO BE REDUCED CONSIDERABLY IN ORDER TO BE ACCEPTABLE TO THE GERMANS. THE GROUP REACHED NO JUDGMENT ON THE PROPOSAL CONCERNING THE SECOND STAGE OF ECONOMIC AND MONETARY UNION ON THE GROUNDS THAT THIS QUESTION COULD NOT PROPERLY BE DISCUSSED

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PAGE 04 EC BRU 06921 01 OF 02 291849Z

UNTIL DECISIONS WERE REACHED ON THE OTHER PROPOSALS OF THE COMMISSION.

6. WHILE OUR PERMANENT REPRESENTATION SOURCES THOUGHT THE MEETINGS OF THE COORDINATION GROUP WERE CONSTRUCTIVE, THIS JUDGMENT SHOULD PROBABLY BE VIEWED IN THE LIGHT OF THEIR SKEPTICISM THAT MUCH WOULD RESULT FROM THESE MEETINGS.

7. A KEY COMMISSION CONTACT HAS GIVEN US A RATHER DIFFERENT VIEW. HE TOLD US QUITE CANDIDLY THAT THE GROUP'S DISCUSSION OF THE FIGHT AGAINST INFLATION WAS CONFINED TO A LEVEL OF GENERALITY THAT OFFERED LITTLE HOPE FOR REALLY BINDING MEASURES. HE ADDED IT ALSO SEEMED CLEAR FROM SUCH DISCUSSION OF THE SECOND

STAGE AS TOOK PLACE THAT THERE WAS LITTLE INCLINATION ON THE PART OF THE MEMBER STATES TO MAKE ANY SERIOUS COMMITMENTS. WHERE THERE WAS SOME MEASURE OF AGREEMENT, SUCH AS ON THE PROPOSED DIRECTIVE ON STABILITY, GROWTH AND FULL EMPLOYMENT, THE MEASURES TENDED TO BE EITHER NON-CONTROVERSIAL OR ALREADY IN USE BY THE MEMBER STATES. THE ONLY MATTER IN WHICH THERE WAS CLEAR AGREEMENT WAS THE PROPOSAL TO MERGE THREE EXISTING COMMITTEES INTO AN ECONOMIC POLICY COMMITTEE.

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PAGE 01 EC BRU 06921 02 OF 02 291945Z

46

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

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LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 6921

8. OUR COMMISSION CONTACT'S EXPLANATION FOR WHAT HE CONSIDERED A DISAPPOINTING PERFORMANCE WAS THAT THE HIGH-LEVEL NATIONAL BUREAUCRATIC INTERESTS

INVOLVED WERE FEARFUL THAT ANY MAJOR CHANGES -- SUCH AS THOSE THAT WOULD PRESUMABLY RESULT FROM THE STRENGTHENING OF THE ROLE OF THE MONETARY COOPERATION FUND -- MIGHT THREATEN THEIR CURRENT POWERS AND PREROGATIVES. THE RESISTANCE OF THESE HIGH-LEVEL OFFICIALS WOULD MAKE IT DIFFICULT FOR THEIR MINISTERS TO MAKE POSITIVE DECISIONS, AND IN THE ABSENCE THEREOF, THE HEADS OF STATE MIGHT FIND IT EQUALLY DIFFICULT TO BREAK OUT OF THE IMPASSE. IN SUME, OUR CONTACT EAS NOT OPTI-  
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PAGE 02 EC BRU 06921 02 OF 02 291945Z

MISTIC ABOUT THE PROSPECTS FOR PROGRESS ON ECONOMIC AND MONETARY UNION IN THE COMING MONTHS. HE THOUGHT THIS STATE OF AFFAIRS COULD BE REVERSED ONLY BY A LAST MINUTE CHANGE OF HEART BY THE FINANCE MINISTERS OR AN UNEXPECTED BREAKTHROUGH AT THE EC SUMMIT DECEMBER 14-15.

9. COMMENT. WHILE THE GUARDED OPTIMISM EXPRESSED AT THE LAST COUNCIL (FNANCE) MEETING (REF A) SEEMS TO HAVE BEEN TEMPERED SOMEWHAT AT THE MEETING OF THE COORDINATION GROUP, THE CHANGE MAY BE MORE APPARENT THAN REAL. IT IS STILL EXPECTED THAT THE MINISTERS WILL APPROVE IN SOME FORM OR OTHER THE COMMISSION'S PROPOSALS FOR A COUNCIL DIRECTIVE ON STABILITY, GROWTH, AND FULL EMPLOYMENT, A COUNCIL DECISION ON ACHIEVING GREATER CONVERGENCE OF ECONOMIC POLICIES, AND THE SETTING UP OF AN ECONOMIC POLICY COMMITTEE. THESE CAN CERTAINLY BE CONSIDERED SPECIFIC MEASURES EVEN IF THEY ARE NOT, IN THE VIEW OF SOME COMMISSION OFFICIALS, SUFFICIENTLY BASIC AND BINDING TO CONSTITUTE REAL PROGRESS TOWARD ECONOMIC AND MONETARY UNION. END COMMENT.GREENWALD

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## Message Attributes

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